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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING 01/01/2001 AND ENDING 12/31/2001
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

IBIS SECURITIES, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

2950 BUSKIRK AVENUE, SUITE 165

(No. and Street)

WALNUT CREEK,

CALIFORNIA

94596

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

KENNETH MARTIN

(925) 939-0833

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

HENDRIKS, G. PAUL

(Name — if individual, state last, first, middle name)

1050 NORTHGATE DRIVE, SUITE 52, SAN RAFAEL, CA 94903

(Address)

(City)

(State)

Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 28 2002

THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

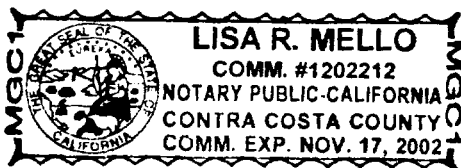
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

BB
3/28

OATH OR AFFIRMATION

I, Kenneth Martin, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of IBIS SECURITIES, LLC, as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

No exceptions



Lisa R. Mello
Notary Public

[Signature]
Signature
MEMBER
Title

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in ~~Financial Condition~~ Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Reconciliation of the Audited Net Capital Computation and the Broker-Dealers Corresponding Unaudited Part IIA Net Capital Computation.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

IBIS SECURITIES, LLC
FINANCIAL STATEMENTS

For the year ended December 31, 2001

IBIS SECURITIES, LLC

For the year ended December 31, 2001

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INDEPENDENT AUDITOR'S REPORT

To the Members of IBIS Securities, LLC:

I have audited the statement of financial condition of IBIS Securities, LLC as of December 31, 2001, and the related statements of operations and changes in stockholders' equity and cash flows for the year then ended. The financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of IBIS Securities, LLC as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 7 to the financial statements, the Company has been named as a defendant in a lawsuit which, in the event of an adverse judgement, could result in a financial loss and impairment of the Company's net capital below amounts as required by the Securities and Exchange Commission. Such an adverse judgement raises substantial doubt about the Company's ability to continue as a going concern. Other than as exhibited in note 7 to the financial statements, no adjustments have been made to the financial statements that might result from the outcome of this uncertainty.

My examination has been made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III, IV, and V is presented for the purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rules 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

February 20, 2002

IBIS SECURITIES, LLC
STATEMENT OF FINANCIAL CONDITION

December 31, 2001

ASSETS

| | |
|--|---------------------|
| Receivable from broker-dealer | \$ 588,914 |
| Other receivables | 15,800 |
| Marketable securities at market value (cost \$129,826) | 130,942 |
| Office furniture, equipment and software, net of accumulated depreciation of \$34,244 | 25,790 |
| Deposits and advances | 4,243 |
| Organization expenses, net of accumulated amortization of \$7,178 | <u>0</u> |
| | \$ 765,689 ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|--|--------------------|
| Overdraft payables | \$ 5,342 |
| Accounts payable and accrued liabilities | 317,041 |
| Reserve for litigation | 50,000 |
| Securities sold not yet purchased at market value | 14,115 |
| Due to broker-dealer | 116,827 |
| State taxes and fees payable | <u>6,000</u> |
| Total liabilities | <u>509,325</u> |
| Stockholders' Equity: | |
| Contributed capital | (29,538) |
| Retained earnings | <u>133,106</u> |
| Total stockholders' equity | <u>256,364</u> |
| | \$765,689 ===== |

The accompanying notes are an integral part
of these financial statements

IBIS SECURITIES, LLC

STATEMENT OF OPERATIONS

For the year ended December 31, 2001

| | |
|-------------------------------------|-----------------------------------|
| Revenue | |
| Commissions and trading revenue | \$2,829,978 |
| Underwriting revenue | 612,525 |
| Consulting and advisory fees | 89,855 |
| Dividend, interest and other income | <u>15,698</u> |
| Total revenue | 3,548,056 |
| Expenses | |
| Compensation and benefits | 1,213,525 |
| Commissions and clearing costs | 1,680,928 |
| Communications | 128,341 |
| Occupancy | 70,127 |
| Promotion | 91,011 |
| Regulatory fees | 9,586 |
| Professional services and other | <u>244,944</u> |
| Total expenses | <u>3,438,462</u> |
| Income before income taxes | 109,594 |
| Income tax expense | |
| Current | 6,000 |
| Total income tax expense | <u>6,000</u> |
| Net income | <u>\$ 103,594</u> <u>=====</u> |

The accompanying notes are an integral part
of these financial statements

IBIS SECURITIES, LLC

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2001

| | <u>Contributed Capital</u> | <u>Retained Earnings</u> | <u>Total Stockholders' Equity</u> |
|--|--------------------------------|------------------------------|---|
| BEGINNING BALANCE December 31, 2000 | \$(29,538) | \$461,805 | \$432,270 |
| Contribution of capital | | | |
| Owner withdrawals | | (279,500) | (279,500) |
| Net income | <u> </u> | <u>103,594</u> | <u>103,594</u> |
| ENDING BALANCE December 31, 2001 | <u>\$(29,538)</u> | <u>\$285,902</u> | <u>\$256,364</u> |

The accompanying notes are an integral part
of these financial statements

IBIS SECURITIES, LLC

STATEMENT OF CASH FLOWS

For the year ended December 31, 2001

Cash flows from operating activities:

| | |
|---|------------------|
| Net income | \$103,594 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | |
| Depreciation and amortization | 8,286 |
| (Increase) decrease in receivables from broker/dealers | (378,346) |
| (Increase) decrease in other receivables | 36,199 |
| (Increase) decrease in marketable securities | 984,361 |
| (Increase) decrease in advances and deposits | 4,000 |
| (Increase) decrease in fixed assets | (16,761) |
| Increase (decrease) in accrued liabilities | 166,712 |
| Increase (decrease) in reserve for litigation | 50,000 |
| Increase (decrease) in securities sold not yet purchased | 14,115 |
| Increase (decrease) in payable to broker-dealer | (998,476) |
| Increase (decrease) in state taxes payable | (251) |
| Net cash provided (used) by operating activities | <u>(26,567)</u> |

Cash provided by financing activities:

| | |
|---------------------------------------|------------------|
| Withdrawals by owners | (279,500) |
| Net cash used by financing activities | <u>(279,500)</u> |

Net increase (decrease) in cash (306,067)

Cash and cash equivalents at beginning of period 300,725

Cash overdraft at end of period (5,342)

Supplemental information:

Income taxes paid \$ 7,251

The accompanying notes are an integral part of these financial statements

IBIS SECURITIES, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Note 1) Organization

The Company was organized as a Limited Liability Company on March 31, 1995 in the state of California. In July 1995 the company became registered with the Securities and Exchange Commission as a broker-dealer in securities pursuant to Section 15 (B) of the Securities and Exchange Act of 1934. On July 14, 1995 the Company became a member of the National Association of Securities Dealers, Inc. In January 2000, the Company changed its name from California Capital Finance, LLC to IBIS Securities, LLC.

The Company's primary business is to underwrite municipal securities and provide consulting services to municipalities. The Company also acts as a broker-dealer of municipal securities.

Note 2) Summary of Significant Accounting Policies

Office furniture, equipment, and software is depreciated using the straight-line method over useful lives of five to seven years.

Organization costs are amortized over five years.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect certain reported amounts of assets and liabilities and the reported amount of revenues and expenses for the reporting period. Actual results could differ from these estimates.

Note 3) Marketable Securities Owned

Marketable securities owned in the amount of \$130,942 consists of municipal bonds at current market values. Net unrealized gains of \$1,116 are included in securities trading revenue for the year ended December 31, 2001 and are the net result of changes between aggregate cost at time of purchase during the 2001 year and the market value of the securities owned at December 31, 2001.

IBIS SECURITIES, LLC
NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Note 4) Provisions for Income Taxes

For income tax purposes the company has been treated as a partnership organized as a California Limited Liability Company. As such, no federal income tax is levied on the Company. For California state tax purposes the company is assessed a minimum tax of \$800 paid for the tax period ended December 31, 2001 in addition to a fee of \$6,000 based on gross revenue. The minimum franchise tax of \$800 for the year ended December 31, 2001 was paid in 2001, with the remaining \$6,000 payable as of December 31, 2001. There are no deferred taxes.

Note 5) Net Capital Requirements

The Company is required to maintain minimum net capital as defined by rule 15c3-1 of the Securities and Exchange Commission. On December 31, 2001, the Company's net capital was \$202,553, the amount of which is \$102,553 in excess of the required net capital. The Company's ratio of aggregate indebtedness to net capital also may not exceed 15 to 1. On December 31, 2001, the Company's net capital ratio was 1.84 to 1.

Note 6) Lease Obligations

In January 2000 the Company entered into an operating lease to rent office premises. The lease term extends through February 28, 2005. The minimum lease payments to be made over the term of the lease are as follows.

| <u>For year ended</u> | <u>Amount</u> |
|-------------------------------------|-------------------------|
| December 31, 2002 | 50,782 |
| December 31, 2003 | 52,087 |
| December 31, 2004 | 52,305 |
| December 31, 2005 | <u>8,718</u> |
| Total future minimum lease payments | <u><u>\$163,892</u></u> |

IBIS SECURITIES, LLC
NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Note 7) Litigation and Going Concern

In October 2001, the Company was named as a defendant in a class action lawsuit filed in the State of Washington, related to the issuance and sale of municipal bonds underwritten by the Company in 2000 in the state of Washington. Subsequent to the issuance and sale of the bonds, the Washington State Controller's office, after a review of the bond issue, issued an opinion that the district for which the bonds were issued had no authority to issue the said bonds. Due to this statement there ceased to be a market for these bonds. The plaintiffs maintain that the bonds were issued without authority and, that after their purchase, have become worthless. The class of plaintiffs seeks compensatory and exemplary damages, attorneys fees and all legal costs resulting from their loss on the purchase of the said bonds.

The Company was named as a defendant along with all other known parties who may have been involved in the underwriting, sale, and the receipt and distribution of the proceeds related to this bond issue. Management of the Company maintains that it did nothing wrong in relation to the underwriting and issuance of the said bonds. Since the case has been recently filed and little, if any, discovery has occurred to date, management is unable to anticipate the outcome of this litigation.

An adverse judgement could result in both, a material financial loss to the Company and impairment to its net capital, reducing net capital below amounts required by the Securities and Exchange Commission. The potential adverse outcome of this litigation raises substantial doubt about the Company's ability to continue as a going concern.

Due to the ongoing nature of this litigation, management has recorded an amount of \$50,000 as of December 31, 2001, as a reserve for legal fees to defend the Company.

SCHEDULE I

Page 1 of 2

FOCUS REPORT – PART II

as of December 31, 2001

Firm Name: IBIS SECURITIES, LLC

Firm ID: 38538

| | | | | |
|------|--|-----------|----|----------|
| 1 | Total ownership equity | | \$ | 256,364 |
| 2 | Deduct o/e not allowable for net capital | | | |
| 3 | Total o/e qualified for net capital | | | 256,364 |
| Add: | | | | |
| A | Allowable subordinated liabilities | | | |
| B | Other deductions or credits | | | |
| | Description | Amount | | |
| 5 | Total cap & allowable subloans | | | 256,364 |
| 6 | Deductions and/or charges | | | |
| A | Total non allowable assets | \$ 45,833 | | |
| B | Aged Fail to deliver | | | |
| 1 | Number of items | | | |
| H | Total deductions and/or charges | | | (45,833) |
| 7 | Other additions and/or allowable credits | | | |
| | Description | Amount | | |
| 8 | Net capital before haircuts | | | 210,531 |
| 9 | Haircuts on securities: | | | |
| A | Contractual commitments | | | |
| B | Subordinated debt | | | |
| C | Trading and investment securities | | | |
| 1 | Exempted securities | | | |
| 2 | Debt securities | \$7,978 | | |
| 3 | Options | | | |
| 4 | Other securities | | | |
| D | Undue concentration | | | |
| E | Other | | | |
| | Description: | | | (7,978) |
| 10 | Net Capital | | \$ | 202,553 |

FOCUS REPORT – PART II

as of December 31, 2001

Firm Name: IBIS SECURITIES, LLC

Firm ID: 38538

| | | |
|---------------------------------------|---|----------------|
| 11 | Minimum net capital requirement: (based on Aggregate Indebtedness) | 24,869 |
| 12 | Minimum Dollar Requirement | <u>100,000</u> |
| 13 | Net capital required (greater of line 11 or 12) | <u>100,000</u> |
| 14 | Excess net capital (line 10 less line 13) | 102,553 |
| 15 | Excess net capital @ 1000% (net cap – 10% of AI) | 165,249 |
| Computation of Aggregate Indebtedness | | |
| 16 | Total AI liability from balance sheet | 373,041 |
| 17 | Add: | |
| A | Drafts for immediate credit | |
| B | Market value of securities borrowed where no equivalent value is paid or credited | |
| C | Other unrecorded amounts | |
| | Descriptions | Amount |
| 19 | Total Aggregate Indebtedness | <u>373,041</u> |
| 20 | Percentage of aggregate indebtedness to net capital | 184 |
| 21 | Percentage of aggregate indebtedness to net capital after anticipated withdrawals | 184 |

Other ratios

| | |
|----|---|
| 29 | Percentage of debt to debt-equity (15c3-1(d)) |
| 30 | Option deductions/Net Capital |

SCHEDULE II

IBIS SECURITIES, LLC

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
FOR BROKER-DEALERS UNDER RULE 15c3-3
DECEMBER 31, 2001

An exemption from Rule 15c3-3 is claimed based upon section (k) (2) (B).
All customer transactions are cleared through other broker-dealers on a fully disclosed basis. The Company clears its securities transactions through BNY Clearing Services, LLC.

INFORMATION FOR POSSESSION OR CONTROL REQUIREMENTS UNDER
RULE 15c3-3

Not applicable.

SCHEDULE III

IBIS SECURITIES, LLC

RECONCILIATION OF THE AUDITED NET CAPITAL COMPUTATION
AND THE BROKER-DEALER'S CORRESPONDING UNAUDITED PART IIA
NET CAPITAL COMPUTATION

December 31, 2001

(Additional Information)

| | |
|--------------------------------------|-----------------------|
| Net capital per unaudited statements | 209,216 |
| Add (deduct) audit differences: | |
| Increase in non allowable assets | (1,591) |
| Increase in accrued liability | <u>(5,072)</u> |
| Net capital per audited statements | <u><u>202,553</u></u> |

Report of Independent Public Accountant

To the shareholders of IBIS Securities, LLC:

In planning and performing my audit of the financial statements of IBIS Securities, LLC, for the year ended December 31, 2001, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5 (g) (1) of the Securities and Exchange Commission (SEC), I have made a study of the practices and procedures followed by IBIS Securities, LLC, including tests of compliance with such practices and procedures, and that I considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a) (11) and the procedures for determining compliance with exemptive provisions of Rule 15c3-3 (k). I did not review the practices and procedures followed by the company (i) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of the differences for prompt payment for securities of Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; or (ii) in obtaining and maintaining physical possession and control; of all fully paid and excess margin securities of customers as required by Rule 15c3-3 because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the company has responsibility are safeguarded from loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of the inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projections of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

My consideration internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, I noted no matters involving internal control that I consider to be a material weakness as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish those objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on my study, I believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.

A handwritten signature in black ink, appearing to read "G. Paul Hunter". The signature is fluid and cursive, with a large initial "G" and a stylized "H".

San Rafael, California
February 20, 2001